

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 AGR-20 IO-14 L-03 SP-03 AID-20

EB-11 NSC-07 RSC-01 CIEP-02 SS-20 STR-08 OMB-01

CEA-02 CIAE-00 COME-00 FRB-03 INR-11 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 DRC-01 /165 W

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P R 160624Z JUL 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 5242

INFO AMEMBASSY KUALA LUMPUR

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USADB

FOR NAC AGENCIES

E O 11652: DECLAS 10/15/74

TAGS: EAID, EFIN, MY

SUBJ: PROPOSED ADB LOAN FOR SABAH LAND DEVELOPMENT PROJECT
(MALAYSIA)

SUMMARY: ADB MANAGEMENT PROPOSES \$14.0 MILLION
EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO
GOVT OF MALAYSIA TO FINANCE FOREX COSTS OF LAND DEVELOPMENT
AND RELATED ROAD CONSTRUCTION; CONSTRUCTION AND
EXPANSION OF PALM OIL MILLS AND BULK STORAGE INSTALLATIONS;
PROVISION OF TRANSPORT EQUIPMENT; CONSULTANT SERVICES;
AND CAPITALIZATION OF INTEREST AND OTHER CHARGES DURING
CONSTRUCTION PERIOD. PROJECT IS PART OF SABAH'S
ONGOING LAND DEVELOPMENT AND SETTLEMENT PROGRAM AND IS
PART OF GOVT'S EFFORTS TO DIVERSIFY SABAH'S AGRICULTURAL
SECTOR AND REDUCE HEAVY RELIANCE ON TIMBER, AND ALSO TO
INCREASE EXPORT EARNINGS. USADB RECOMMENDS FAVORABLE
NAC ACTION.

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1. ADB DOC R64-74 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN POUCHED ADDRESSEES JULY 10. BOARD CONSIDERATION LIKELY JULY 30.

2. ADB MANAGEMENT PROPOSING \$14.0 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES TO GOVT OF MALAYSIA FOR SABAH LAND DEVELOPMENT PROJECT LOCATED IN VARIOUS PARTS OF STATE OF SABAH. PROCEEDS WILL FINANCE FOREX COSTS OF LAND DEVELOPMENT AND RELATED ROAD CONSTRUCTION; CONSTRUCTION AND EXPANSION OF PALM OIL MILLS AND BULK STORAGE INSTALLATIONS; PROVISION OF TRANSPORT EQUIPMENT; CONSULTANT SERVICES; AND CAPITALIZATION OF INTEREST AND OTHER CHARGES DURING CONSTRUCTION PERIOD. PROPOSED TERMS ARE 25 YEAR AMORTIZATION INCLUDING 5 YEAR GRACE PERIOD, 7 1/2 PERCENT INTEREST. GOVT OF MALAYSIA TO BE BORROWER AND SABAH LAND DEVELOPMENT BOARD (SLDB) EXECUTING AGENCY. BORROWER WILL RELEND FUNDS TO STATE OF SABAH WHICH IN TURN WILL RELEND LOAN PROCEEDS TO SLDB ON SAME TERMS AS UNDER BANK'S LOAN.

3. LAND DEVELOPMENT CONSTITUTES ONE OF MAJOR MEASURES TO PROMOTE ECONOMIC GROWTH IN SABAH, AS IT DOES IN PENINSULAR MALAYSIA. PROPOSED PROJECT FORMS PART OF GOVT'S EFFORTS TO DIVERSIFY SABAH'S AGRICULTURAL SECTOR AND REDUCE HEAVY RELIANCE ON TIMBER, AND ALSO TO INCREASE EXPORT EARNINGS. ALSO, IMPROVEMENT OF ECONOMIC AND SOCIAL CONDITIONS OF DEPRESSED POPULATION GROUPS THROUGH ORGANIZED SETTLEMENT IN EQUALLY IMPORTANT OBJECTIVE.

4. MALAYSIA EXPORTS MORE THAN 90 PERCENT OF ITS PALM OIL PRODUCTION. THESE EXPORTS HAVE INCREASED SHARPLY IN PAST DECADE AND BY 1980 ARE EXPECTED TO CONSTITUTE 75 PERCENT OF EXPECTED WORLD TRADE IN PALM OIL. ACCORDING TO STUDIES PREPARED BY FAO AND IBRD, WORLD DEMAND FOR FATS AND OILS IS EXPECTED TO ABSORB ANTICIPATED INCREASE IN PALM OIL OUTPUT, WITH DEMAND FOR VEGETABLE OILS, INCLUDING PALM OIL, GROWING FASTER THAN FOR OTHER FATS AND OILS.

5. PROJECT IS CONCERNED WITH DEVELOPMENT PROGRAMS FOR SIX ONGOING OIL PALM SETTLEMENT SCHEMES LOCATED IN VARIOUS PARTS OF SABAH. PROJECT INVOLVES (A) LAND CLEARING AND LIMITED OFFICIAL USE

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OIL PALM DEVELOPMENT ON ABOUT 31,000 ACRES OF LAND; (B) CONSTRUCTION OF ABOUT 1100 MILES OF ROADS; (C) SETTLEMENT OF ABOUT 4300 FAMILIES OF POPULATION OF 20,000 INCLUDING PROVISION OF RELATED HOUSING AND SOCIAL INFRASTRUCTURE; (D) CONSTRUCTION OF ONE NEW PALM OIL MIL AND SIZEABLE EXPANSION OF ANOTHER; (E) PROVISION OF TRANSPORT EQUIPMENT; (F) PROVISION OF BULK STORAGE FACILITIES FOR OIL; AND (G) CONSULTANT SERVICES. PROJECT INCLUDES STUDIES

OF FUTURE LAND DEVELOPMENT IN CERTAIN AREAS OF SABAH
AND PREPARATION OF RELATED PROJECTS FOR FUTURE IMPLEMENTATION.
CONSTRUCTION WORKS INCLUDING RELATED SOCIAL INFRA-
STRUCTURE WHICH ARE PART OF PROJECT WILL BE COMPLETED
BY 1980.

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INFO OCT-01 EA-11 ISO-00 AGR-20 IO-14 L-03 SP-03 AID-20

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6. TOTAL INVESTMENT COSTS FOR PROJECT ARE ESTIMATED AT
\$66,616,000. FOREIGN EXCHANGE COSTS TO BE MET BY PROPOSED
BANK LOAN OF \$14.0 MILLION INCLUDES \$2,869,000 FOR CAPITAL-
IZATION OF INTEREST AND OTHER CHARGES DURING CONSTRUCTION.
ASSURANCES HAVE BEEN OBTAINED THAT NECESSARY LOCAL COST
FINANCING AND FACILITIES WILL BE MADE AVAILABLE. ADB
FINANCING IS SCHEDULED TO COVER (IN ADDITION TO CAPITALIZAT-
ION COSTS) ROAD CONSTRUCTION AND LAND DEVELOPMENT AND
EQUIPMENT (\$3,864,000), OIL MILL CONSTRUCTION AND EXPANSION
EQUIPMENT (\$3,114,000), PALM FRESH FRUIT BUNCHES AND OIL
TRANSPORT EQUIPMENT (\$628,000), BULK STORAGE CONSTRUCTION
AND EQUIPMENT (\$1,041,000), CONSULTING SERVICES (\$645,000)
AND 20 PERCENT COVERAGE FOR CONTINGENCIES (\$1,839,000)
FOR TOTAL OF \$11,131,000.

7. PROCUREMENT WILL BE CONDUCTED IN ACCORDANCE WITH
BANK'S GUIDELINES FOR PROCUREMENT. CONSTRUCTION CONTRACTS

OF \$200,000 OR MORE AND EQUIPMENT AND MATERIAL
CONTRACTS OF \$100,000 OR MORE WILL BE AWARDED ON BASIS
OF INTERNATIONAL COMPETITIVE BIDDING; SMALLER CONTRACTS
ON BASIS OF INTERNATIONAL SHOPPING PROCEDURES.
CONSULTING SERVICES FOR DESIGN ENGINEERING AND CONSTRUCTION
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SUPERVISION (\$187,000) AND FOR REGIONAL PLANNING AND
PROJECT STUDIES (\$400,000) WILL BE PROVIDED IN ACCORDANCE
WITH BANK'S GUIDELINES ON USES OF CONSULTANTS. SERVICES
OF FIRM OR FIRMS QUALIFIED IN TOPOGRAPHICAL MAP PREPARATION
(\$58,000) WILL BE ENGAGED FOR MAP PLOTTING FOR ROAD
LAYOUT PLANS IN ACCORDANCE WITH INTERNATIONAL SHOPPING
PROCEDURES.

8. PROJECT WILL BE EXECUTED BY SLDB, MAJOR LAND DEVELOPMENT
AGENCY IN SABAH. IT IS AUTONOMOUS PUBLIC CORPORATION
ESTABLISHED IN 1969 AND HAS SUCCESSFULLY UNDERTAKEN LARGE-SCALE
LAND DEVELOPMENT AND OPERATION OF PALM OIL MILLS IN
PAST. IN ORDER TO FURTHER IMPROVE ITS OPERATIONAL
EFFICIENCY, SLDB WILL STRENGTHEN ITS STAFF CONCERNED
WITH ROAD CONSTRUCTION, SETTLEMENT AND FINANCIAL MANAGEMENT
(SIDE LETTER NO. 4). SLDB WILL ALSO ENSURE ESTABLISHMENT OF
APPROPRIATE WORKSHOP FACILITIES AND MAINTENANCE SCHEDULES
FOR ROAD CONSTRUCTION EQUIPMENT.

9. PROPOSED PROJECT IS CONSIDERED TO BE TECHNICALLY
FEASIBLE AND ECONOMICALLY SOUND AND IS ACCORDED HIGH PRIORITY
BY GOVT OF MALAYSIA IN ITS DEVELOPMENT PROGRAM FOR STATE
OF SABAH. PROJECT WOULD SUPPORT GOVT'S PLAN TO ACHIEVE HIGH
RATES OF GROWTH IN SMALLHOLDER AGRICULTURE THROUGH
LAND DEVELOPMENT AND TO INCREASE INCOMES OF RURAL POPULATION.
ECONOMIC RATE OF RETURN ON PROJECT IS OVER 15 PERCENT.
BY 1980, PROJECT IS EXPECTED TO RESULT IN FOREIGN
EXCHANGE EARNINGS OF \$19 MILLION. ABOUT 4300 FAMILIES WILL
BE SETTLED IN VIABLE COMMUNITIES, AND THEY WILL OPERATE AND
ULTIMATELY OWN ECONOMIC SIZE HOLDINGS. USADB SUPPORTS
PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

10. WHILE LOAN DOCUMENT (PARA 105) NOTES THAT CAPITALIZATION
OF INTEREST AND OTHER CHARGES TO EASE BORROWER'S BURDEN
CANNOT BE JUSTIFIED FROM POINT OF VIEW OF MALAYSIA'S
COMFORTABLE BALANCE OF PAYMENTS AND DEBT SERVICE POSITION,
HOWEVER, IT ASSERTS THERE IS STRONG JUSTIFICATION FOR SUCH
CAPITALIZATION BECAUSE OF LONG GESTATION PERIOD OF PALM
OIL PROJECTS. AS THIS ACTION WOULD GREATLY EASE TIGHT
CASH FLOW OF SLDB, BANK AGREED TO GOVT'S REQUEST FOR
CAPITALIZATION ON CONDITION THAT FULL BENEFITS THEREFROM
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BE PASSED ON TO SLDB.

11. REQUES TKUALA LUMPUR COMMENTS FOR NAC AGENCIES,
INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY
1972.
SULLIVAN

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Message Attributes

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Draft Date: 16 JUL 1974
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Decaption Note:
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Disposition Approved on Date:
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